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Pensions & Investment Age

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Armco fund sells stock

By Joel Chernoff

PARSIPPANY, N.J. — The $1.5 billion Armco Inc. pension fund sold a special issue of preferred stock for $13 million less than its value when Armco contributed the stock to the fund four years ago.

The fund sold the 1 million-share issue of $4.50 cumulative convertible preferred stock on the secondary market for $37 million, or $37 per share. The shares were valued at $50 each when contributed to two of Armco's pension plans in June 1983.

The selloff is the second recently by a steel industry pension fund. Last month, the USX Corp. pension fund sold back 1 million shares of preferred stock to the company. Those shares stemmed from a 2.5 million-share contribution originally made by the company in 1983 that later was swapped for a different issue of preferred stock and warrants.

In 1986, the USX pension fund sold 1.5 million shares of the new preferred stock to the public. Last month's sale —

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Bail-out by Ginnie Mae

Agency assumes 25% of mobile home portfolios

By Marcia Parker

The Government National Mortgage Association, Washington, has taken over six troubled mobile home loan portfolios totaling $850 million to $900 million because of mounting defaults, and now is wrestling with how to minimize potentially significant losses to the government.

That represents about 25% of the present outstanding balances on mobile home loans backing $3.6 billion in Ginnie Mae securities.

This does not appear to have affected the private market, however, as issuers led by Green Tree Acceptance Corp., St. Paul, Minn., are putting the finishing touches on about $200 million in new private placements of mobile home loan-backed securities.

The mobile home loan portfolios Ginnie Mae took over belong to six mobile home financiers mostly in the depressed oil patch and agricultural states of the Southwest. The individual mobile home owners were hit by the regional economic downturn and have had trouble meeting payments. Ginnie Mae officials, who declined to identify the six lenders, aren't yet certain what losses their agency might have to absorb.

"There will be a net loss, but we don't yet know how much," said Louis Gasper, executive vice president of Ginnie Mae. "We haven't inventoried everything yet."

Ginnie Mae buys loans from a long list of approved lenders and swaps them for its own securities backed by the loans, which the lenders can keep or sell. The lenders remain responsible for servicing and making principal and interest payments to investors.

Because Ginnie Mae is a U.S. government entity, the government's full faith and credit guarantee stands behind every security. That means if even one mortgagee doesn't make his or her payments, and the lender, in turn, isn't able to pay the investor who bought the securities backed by the loans, Ginnie Mae must take over the portfolio and pay the security holder.

Not all loans in the portfolios Ginnie Mae assumed are bad, but Mr. Gasper declined to give a specific percentage.

He said he doesn't expect Ginnie Mae to be confronted with many more troubled mobile home loan portfolios. "Our guess is we've gotten into the soup as deeply as we can get. We are seeing some signs that things have stabilized," he said.

The problem loans Ginnie Mae holds surface at a time when the still-infant market for securities backed by mobile home mortgages is beginning to take off.

Although it's a relatively new niche in the fast-growing mortgage-backed securities market, mobile home loans are satisfying what appears to be a sizable appetite among issuers and investors for new assets to securitize.

Hugh Frater, senior associate at Shearson-Lehman Brothers Inc.'s mortgage securities group, New York, estimates total manufactured housing debt outstanding is about $27.5 billion. Only about 10% has been securitized through Ginnie Mae guarantee programs and an equally small percentage securitized by other issuers that placed them privately with institutional investors.

Ginnie Mae's difficulties also come on the heels of widespread questioning in the investment community over whether investors truly understand the risks inherent in owning highly complex mortgage-backed securities. Debate was spurred by Merrill Lynch & Co.'s $275 million in losses in May from mortgage-backed securities trading.

Ginnie Mae isn't the only issuer to feel the fallout from bad mobile home loans. Non-government issuers like Green Tree and General Electric Credit Corp., Stamford, Conn., have had their share.

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Inside:

UNDERVALUED: Leonard J. Heine of Asset Management Corp. is waiting for value managers to make a comeback. In the meantime, he's holding more than $1 billion in assets in cash equivalents — Page 12.

California Teachers' puts $6 billion into bond index

By Jacqueline Dutton

SACRAMENTO, Calif. — In a major step toward its goal of moving to in-house management of fixed income, the California State Teachers' Retirement System moved its $6 billion bond portfolio into what is believed to be the largest single bond index account.

The account with Manufacturers Hanover Investment Corp., New York, was established to consolidate assets while the fund prepares to bring the assets in house, said Lawrence Kurmel, chief executive officer of the $23 billion fund. He expects the transition to take place in eight months.

MHIC was chosen as manager of the temporary index account in part because the firm had been an active manager of about 90% of the fund's $6 billion in bond assets.

"They've adjusted their (active) style to accommodate our needs," Mr. Kurmel said of MHIC, which was managing only $650 million in bond index accounts for clients before the California Teachers' move. "They are responsive to the direction we are heading to."

The California fund is only one of several pension funds moving to bond indexing. *(See related story, page 3.)*

Mr. Kurmel said the fund's transition to passive from active management of the fixed-income portfolio is based on the need to contain management costs.

Kevin Hurley, director-quantitative fixed-income investment at MHIC, said the index fund will be weighted to give the portfolio a longer duration than the market to cover the fund's long-term liabilities, adding this is less constraining than a strict dedicated portfolio. He noted the fund has many active employees now, so its liabilities are more long term.

"I think they (California Teachers) concluded that their objective would be better served by indexing as opposed to having a group of managers on board whose objective was more aimed at beating the market than meeting liabilities," said Robert C. Peck Jr., a senior vice president at MHIC.

"If you are attempting to put together an investment plan designed to fund a specific system's liabilities, what is the relativity of beating the Shearson" Lehman Goverment/Corporate bond index?

Mr. Peck said MHIC was not surprised by its termination as an active manager. He said the firm's portfolio managers were aware of the fund's plans, and were helping the fund's investment officers prepare for the shift.

The latest phase of the fixed-income restructuring intensified in the past two months with the termination of active managers Manufacturers Hanover; Loomis, Sayles & Co. Inc., Boston; Miller, Anderson & Sherrerd, Bala Cynwyd, Pa.; Pacific Investment Management Co., Newport Beach, Calif.; Scudder, Stevens & Clark, New York; Stein Roe & Farnham, Chicago; and T. Rowe Price Associates, Baltimore.

California's investment officers stepped up efforts to consolidate the fixed-income assets just as New York City officials were completing a fixed-income restructuring similar in scope and objective.

During the course of a $17 billion restructuring completed in February, the five New York funds hired 17 managers to handle accounts in four different sectors — government, corporate, foreign and mortgage-backed securities *(Pensions & Investment Age*, Nov. 10).

The restructuring of the California Teachers' fixed-income component is part of an effort to bring the fund's portfolio into "modern times," Mr. Kurmel said.

He said that when he and Chief Investment Officer Thomas E. Flanigan joined the fund in 1985, they decided its mix of 57% fixed income, 24% equity, 12% cash and the remainder in real estate and other investments, was "archaic."

Since then, the fund has reduced its fixed-income position to 35%, including mortgages and mortgage-backed securities, by boosting its equity allocation to 55%, boosting real estate to 2.5% real estate and reducing cash to 7.5%.

The next phase, he said, is adding international equity to the portfolio, a move that likely will take place in the fall after a manager search. He estimated the initial allocation will be $300 million to $500 million.

Pension *funds* face negative cash flow

By John Covaleski

Surging investment gains and the maturing of pension funds are presenting pension executives with a new investment problem — negative cash flow.

Although not widespread, negative cash flow — when a pension fund's outflow for benefit payments and operating costs exceeds its plan sponsor contributions and investment income — looms as potentially a more common occurrence for pension funds.

To cope, money managers and consultants say, pension executives may keep their fund assets as liquid as possible to have cash on hand to pay liabilities as they come due or establish bond portfolios whose maturities match liabilities.

Pension funds whose executives have confirmed they are in or nearing negative cash flow are those of Kraft Inc., Northbrook, Ill.; Armco Inc., Middletown, Ohio; Bethlehem Steel Co., Bethlehem, Pa.; and Bechtel Power Co., San Francisco.

Investment gains have increased the asset sizes of some pension funds to the point of reaching the full funding limitation, the level at which the Internal Revenue Service disallows additional contributions on a tax-exempt basis. That severely limits fund income.

At the same time, maturing pension funds often have more retirees than active workers. That increases benefits paid out.

When employees of Kraft Inc. began taking lump-sum benefit payments, the pension plan neared negative cash flow.

Corporate sell-offs or shutdowns of operating subsidiaries further increase the likelihood of negative cash flows.

In these subsidiaries, plan sponsors' pension funds are responsible for the liabilities of workers who retire from the subsidiaries, but the active employees generally are transferred into new pension plans.

The Labor Department reports a steadily increasing percentage of pension funds are hitting negative cash flow. Based on Form 5500 reports, 13% of the 201,000 plans filing for calendar year 1984 — the most recent data available — reported being in a negative cash flow, up from 11.1% of 199,000 plans in 1983 and 7.6% of the 191,000 plans reporting in 1982.

The pension funds reporting were both defined benefit and defined contribution plans. Their total assets were $628 billion in 1984; $606 billion in 1983; and $553 billion in 1982. Although more recent data are not available, pension fund observers say the trend of more funds entering negative cash flow is continuing.

"There's a real possibility more and more pension funds will go into negative cash flow. With the aging of America's work force and fewer younger people entering it, you're getting more retirees than active workers, and you have to play catch-up," warned Stuart J. Brahs, executive director of the Association of Private Pension and Welfare Plans, Washington.

Larry B. Wiltse, consulting actuary and director of forecasting and planning services at Buck Consultants Inc., New York, said, "Any plans that are well-funded to begin with and then experience serious declines in employment are susceptible" to negative cash flows. But, he said the amounts by which outflow exceed inflow gen-

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Directory questionnaires mailed

Questionnaires for *Pensions & Investment Age*'s annual directories of master trust banks and real estate asset managers are in the mail.

Master trust banks and real estate investment managers that have not received questionnaires by July 17 and want to be included in the directories should call Carol Wiley, directory coordinator, at (312) 649-5486.

The master trust directory will be published Sept. 7; deadline for return of the completed questionnaires is Aug. 10.

The real estate directory will be published Sept. 21; completed questionnaires must be returned by Aug. 1.

Asset-liability studies flourish

By Trudy Ring

Asset-liability studies are enjoying popularity among pension funds, thanks in part to the accounting rules that put pension liabilities on corporate balance sheets.

Most consultants interviewed wouldn't divulge the number of asset-liability studies they have done. The numbers from the few that would indicate at least 60 plan sponsors did the studies in the past year, and at least 15 are in the process. The industry totals probably are much higher.

However, corporate sponsors that look at liabilities because of accounting standards may be doing it for the wrong reason, some plan executives and consultants said. The Financial Accounting Standards Board's new rules suggest a short-term, year-to-year outlook, while pension plans have long-term needs.

Still, many contend the liabilities merit a look with or without accounting considerations, simply because the purpose of the assets is to pay for the liabilities. Others, however, say asset-liability studies don't tell plan executives anything they don't already know, or that liability growth is irrelevant to a well-funded, well-invested plan.

In an asset-liability study, pension officers look not only at the optimal asset allocation for a defined benefit plan, but at how both the liabilities and the assets will grow under various economic circumstances. Many plans use consultants for these studies, while a few do the work in-house.

Use of asset-liability modeling has been growing steadily since the mid-1970s, but concern about FASB rules has caused growth to explode in the past year, said Irwin Tepper, president of Irwin Tepper Associates, Newton, Mass., a firm that provides such models.

Most of the users of asset-liability studies have been corporate plan sponsors; a few public plans, although not affected by FASB, have used them because of concerns about meeting liabilities or investing in alternative asset classes.

A pension fund sponsor that did asset-liability studies even before their recent growth in popularity was Owens-Illinois Inc., Toledo, Ohio, which has about $2 billion in pension assets. Ronald C. Boller, director-benefit finance, said his first discovery upon taking the job in 1980 was that asset-liability studies weren't being done, but should be.

"The only way to set asset mix is to simultaneously look at assets and liabilities," he said. "You're in business to pay the liabilities, and the assets are the only way to do it."

Ronald C. Boller of Owens-Illinois used asset-liability studies before they were popular.

Owens-Illinois did its first study in 1981, using a liability model from Winklevoss & Associates, Philadelphia. It was one of the few models available then.

Since 1981, Owens-Illinois has done an asset-liability study every year, looking at liabilities both on an ongoing and a termination basis. Findings resulted in larger allocations to international equities, which grew to 15% from 4%, and international bonds, to 3% from 1%, and the reduction and eventual elimination of defined benefit plan contributions.

"What (doing the studies) caused us to do is to see three or four years early the same thing everybody else is seeing now and get our contributions down dramatically," Mr. Boller said.

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Curbs likely for leveraged ESOPs

By Nicky Robertshaw

WASHINGTON — The House Ways and Means Committee is considering dramatically restricting the ability of companies to establish leveraged employee stock ownership plans.

The proposal, among a host of options prepared by the committee and the Joint Committee on Taxation to help Congress find $19.3 billion in new tax revenue, would eliminate ESOPs' ability to make loans to a party related to the plans.

On the same day the two committees suggested eliminating some tax benefits of ESOPs, the plans' principal proponent, former Sen. Russell B. Long, D-La., was urging the Senate Banking Committee to expand the use of ESOPs in corporate takeover situations.

But the ESOP community will have to rally to keep the plans' current tax preferences before being able to pursue expansions of their use.

"We are going to be organizing our members and be as aggressive as possible," said David Binns, managing director of the Employee Stock Ownership Association, Washington.

In a letter to members, the association said the House Ways and Means Committee could vote as early as July 20 to effectively repeal leveraged ESOPs and all special ESOP tax rules. "Although there is good reason to believe this incredibly drastic anti-ESOP proposal will not become law, the proposal does present a very real threat," the letter said.

Mr. Binns pointed out the changes are "not one of the high-ticket items" on the committee's list of 200 revenue-raising options, generating $100 million compared with the $19.3 billion the Ways and Means Committee hopes to raise for fiscal 1988. For that reason, it might not be as tempting to lawmakers. The likelihood the options actually will make it into the 1988 budget depends on a number of factors, including how likely the president is to stand by his promise to veto any tax increase and whether Congress could override that veto. Other factors include how politically damaging the changes might be to members of Congress, and whether the areas in question were addressed by the 1986 Tax Reform Act.

Leveraged ESOPs, which provide companies with a way to borrow money with attractive tax incentives, account for about 25% of all ESOPs and make up the fastest-growing segment of the industry, Mr. Binns said. They are seen as affecting banks and companies but not stirring the voters' ire as strongly as taxing health benefits and other considerations, according to a congressional source.

The proposal would severely disrupt use of leveraged ESOPs by eliminating the plans' automatic exclusion from the Employee Retirement Income Security Act's rules against establishing loans between an employee benefit plan and a party connected with the plan.

Pointing out similar exclusions could be obtained on a case-by-case basis from the Department of Labor, one observer believes instead of eliminating the ESOP ex-

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Indexed assets top $187 billion

By Hank Berkowitz

Impressive growth of fixed-income and international equity index funds boosted the overall growth of indexed assets for U.S. pension funds to $187.96 billion, up 24% from $151.58 billion for the six months ended May 31.

After accounting for market appreciation, assets in domestic stock index funds grew a net 5.1%; those in bond index funds grew a net 49.5%; and those in international index funds grew a net 43.7%, according to a *Pensions & Investment Age* poll of 72 money managers known to engage in at least one form of indexing.

Wells Fargo Investment Advisors, San Francisco, easily remained the largest index fund manager with $62.3 billion in total indexed assets, up from $55.3 billion as of Nov. 30, when *P&I Age* last surveyed U.S. index fund managers (*P&I Age*, Jan. 12). Wells Fargo's nearest competitor is Bankers Trust Co. — Investment Management Group, New York, which had $28.5 billion in indexed assets as of May 31.

Rounding out the top five are Mellon Capital Management, San Francisco, $20 billion; State Street Bank & Trust Co., Boston, $15.2 billion; and American National Bank & Trust Co. of Chicago, $9.6 billion.

Of the total indexed assets, $124.07 billion, or 66%, tracked domestic equity indexes. That figure is up 23.3% from $100.59 billion Nov. 30, a gain that resulted primarily from an 18.2% increase in the Standard & Poor's 500 stock index in the six months.

However, the 5.1% net gain in stock indexing surprised many industry observers who expected stock indexing to bottom out after registering a net gain of less than 1% in the previous six-month period.

"Particularly when the market is meandering sideways, rather than up and down, it's tough for anyone to beat the index," Chuck Clinton, vice president-asset management services, Hartford Life Insurance Cos., Hartford, Conn., said explaining the gain. Hartford has $42 million in indexed assets.

While traditional S&P 500 index funds claim $99.9 billion, or more than 80%, of stock index assets, other indexes have gained in popularity.

More than $10.2 billion, or 8.2%

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Top index fund managers

($ millions as of 5/30/87)

	Total indexed	Domestic equity	Domestic fixed	International
Wells Fargo	62,353	37,661	10,916	606
Bankers Trust	28,500	24,700	3,500	300
Mellon Capital	20,000	17,000	3,000	0
State Street Bank	15,180	9,600	1,720	3,860
American Nat'l Bank*	9,550	8,250	1,200	100
Manufacturers Hanover Trust	6,706	106	6,600	0
Chase Investors	6,418	5,500	501	0
Dimensional Fund Advisors	5,153	4,076	964	113
Mellon Bond Associates	4,200	0	4,200	0
Alliance Capital	4,110	3,800	60	250
Manufacturers Nat'l-Detroit	3,409	3,100	9	300
Northern Trust	2,688	1,326	1,336	25
T. Rowe Price	2,249	249	1,950	0
The Boston Co.	2,046	1,574	340	132
Prudential Asset	1,910	895	623	392
Lehman Management	1,900	0	1,900	0
Putnam Advisory	1,600	0	1,600	0
Lincoln Capital	1,500	0	1,500	0
The Vanguard Group	1,186	1,160	26	0
Harris Trust	800	500	300	0
Citicorp	660	660	0	0
Axe Core Investors	500	375	0	125
RepublicBank Dallas	475	475	0	0
[illegible]B Capital	467	467	0	0
Tenneco Fina[illegible]	457	457	0	0
Aetna Life & Casualty	450	250	200	0
Centerre Trust	316	316	0	0
Western Asset	300	0	300	0
Fiduciary Trust	270	0	0	270
BA Investment	267	158	109	0
Metropolitan Life**	220	220	0	0
Travelers Investment	218	166	0	52
First Wisconsin Trust	205	30	175	0
First Interstate/California***	203	162	41	0
MacKay-Shields Financial	180	25	155	0
Nat'l Bank of Detroit	172	172	0	0
Favia Hill	101	0	101	0
The Griffin Group	95	0	95	0
County Investment	75	75	0	0
Irving Trust	70	70	0	0
SeaFirst Bank	70	0	70	0
Total	187,229	123,575	43,491	6,525

*As of 3/1/87

**$124 million in short-term timed index fund

***As of 11/30/86

The Toronto Dominion Bank Tower in the Pacific Center of Vancouver, British Columbia, is one of the properties JMB Realty Corp. would acquire through the purchase of Cadillac Fairview Corp.

JMB raising more cash to buy Cadillac Fairview

By John Covaleski

CHICAGO — In an 11th-hour twist, JMB Realty Corp. likely will be forced to raise $460 million more than planned for its acquisition of Cadillac Fairview Corp., the Toronto real estate developer.

The $1.96 billion deal (based on the 90-day forward currency exchange rate between Canada and the United States) is considered the largest single real estate transaction ever, and will be financed mainly by tax-exempt institutions investing in a private placement.

Although JMB initially expected to raise $1.5 billion of the purchase price, the stakes will be raised to the entire $1.96 billion, unless negotiators break through an impasse in plans to sell $450 million worth of Cadillac Fairview assets to an investment group consisting of Copley Real Estate Advisors, Boston, and Michael Prentiss, president of Cadillac Fairview's urban development unit in Dallas.

In addition, terms of the deal have been changed, with JMB now required to finance the acquisition entirely with cash instead of cash and some preferred stock. The change to all cash has increased the amount of cash JMB has to raise by $10 million, but the per-share sale price was lowered to $25.53 from $26.28, and JMB's deadline for raising the money was extended two months to Oct. 31.

(A $10 million discrepancy exists between the size of the total transaction — $1.96 billion — and the two components — $450 million from the Copley-Prentiss group and $1.5 billion from the private placement. JMB officials said the $10 million difference is due to rounding.)

Cadillac Fairview officials signed a definitive sales agreement with JMB last week, in which JMB will pay cash for 78 million shares outstanding. Previously, JMB was to have acquired up to 35% of Cadillac Fairview shares, which included all those owned by the Bronfman family, in exchange for two series of preferred stock in the new company.

Under the new terms, the sale price decreased $60 million.

The price change and the switch to an all-cash deal were made because of proposed changes in Canadian income tax law, said Bernhard I. Ghert, president and chief executive officer of Cadillac Fairview. But sources said the price was reduced because Copley executives complained about the pricing of the Cadillac Fairview assets the Copley group had been planning to acquire.

By far the most critical new variable of the transaction is whether Copley will buy the Cadillac Fairview assets, the sale of which would have generated liquid assets so JMB would have had to come up with less cash.

Differences about pricing caused a "serious impasse" in negotiations, said Peter Harrington, second vice president of public relations for The New England Mutual Life Insurance Co., Boston, Copley's parent organization. Mr. Harrington added there is only a "slight" chance negotia-

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Investment tax resurfaces

By Nicky Robertshaw

WASHINGTON — A proposal to impose a 5% excise tax on investment income of qualified pension funds and other tax-exempt organizations has resurfaced.

The House Ways and Means Committee and the Joint Committee on Taxation have latched onto the idea, listing it among 200-odd revenue-raising options to be considered in raising $19.3 billion for the fiscal 1988 federal budget. A recent Congressional Budget Office study suggested imposing such a tax on pension funds only (*Pensions & Investment Age*, June 1).

The option proposes imposing a 5% tax on net income, which is defined as gross investment income including dividends and interest plus net capital gain minus the expenses of earning the income. Unrealized gains would not be taxed under the proposal.

The excise tax is attractive because it would raise $3.5 billion during fiscal 1988 and $15.1 billion during the next three years.

But placing a tax on this income could have an enormous effect on investment decisions, as pension fund money managers move away from interest and dividend-producing investments toward equities without dividends, which present a higher risk, several observers said.

"We're talking about a massive base of assets, and the extent to which this could influence investments is a serious question that I don't think has been answered," said Harold Dankner, a partner at Coopers & Lybrand, Washington.

Other key options affecting retirement plans provided by the joint tax committee include tightening maximum funding rules for pension funds and effectively repealing the use of leveraged employee stock ownership plans, as well as imposing several other restrictions on ESOPs (*see related story, page 2*).

Notably absent from the list of revenue-raising options is the repeal of 401(k) salary reduction plans, which would have generated $21.8 billion between fiscal 1988 and 1991, said Gerald L. Uslander, a principal in the Louisville, Ky., office of William M. Mercer-Meidinger-Hansen Inc.

This possibility, as well as a proposed freeze on maximum contributions to defined benefit and defined contribution plans, had been on a preliminary version of the list prepared by the joint taxation committee in lat

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U.S. bank subsidiary gets Japanese funds

By Marlene Givant

TOKYO — Japan Bankers Trust Co. has been awarded $14 million of Japan's $380 billion welfare pension plan funds — the Japanese equivalent of Social Security — making it the first foreign trust bank to make a splash in that enormous pool of assets.

It also gives Japan Bankers Trust an edge over some 24 foreign managers in Tokyo trying to break into Japan's institutional and investment trust market.

Japan Bankers, a wholly owned trust banking arm of Bankers Trust New York Corp., joins eight Japanese trust banks selected last year to manage part of the welfare pension plan assets, which previously had been managed by the Ministry of Finance.

The nine trust banks have received $3.4 billion total this year.

Japan Bankers Trust's account will be invested within the asset allocation guidelines set by the Ministry of Finance with an emphasis on equity and international investments. The assets may be invested in Euroyen bonds, but only 30% may be in non-yen investments.

Japan Bankers Trust plans to invest in specialty areas in which it has expertise, such as index funds and futures and options, according to Dennis H. Ferro, president of Japan Bankers Trust.

Bankers Trust Co., New York — the principal subsidiary of Bankers Trust New York Corp. — was one of nine foreign banks selected by the Ministry of Finance in June 1985 to set up a trust bank subsidiary in Japan. Japan Bankers Trust, which was established in October 1985, reported $2.2 billion under management as of March 31. ■

Corrections & clarifications

• In a June 15 article on Alan Greenspan's appointment to the Federal Reserve Board, a reference by **John Conlin**, marketing director of **SBC Portfolio Management International Inc.**, New York, to high Japanese earnings multiples should have said multiples exceed 200 times earnings in such companies as Nippon Telephone & Telegraph.

• **Wells Fargo Investment Advisors**, San Francisco, was omitted inadvertently from the June 29 Directory of the 50 Largest International Managers. With $647 million in international equities under management as of March 31, Wells Fargo would have been 24th among managers ranked by tax-exempt assets in international and global accounts, and 18th among managers ranked only by international accounts.

Assets under management by the firm as of March 31 totaled $67.2 billion, of which $66.9 billion were tax-exempt.

All international equities are indexed to the Morgan Stanley Capital International Europe Australia Far East stock index, but other investment strategies are available.

Fred Grauer, president, is chief investment officer. Bob Haber, client service coordinator, is client contact.

• **Beutel, Goodman International PLC, London,** was omitted inadvertently from the June 29 listing of the 50 largest international and global money managers. Reporting $213 million in foreign investments for U.S. institutional tax-exempt clients as of March 31, the firm would have ranked 44th.

Of that total, $202 million was invested in global bonds, with the remainder in cash. The firm would have ranked 10th in the chart of managers ranked by tax-exempt assets in global accounts.

Chief investment officers are Olaf Rogge and Peter Mellor, principals. The client contact is Daniel Freelund, Fairfield Capital Associates, Westport, Conn.; (203) 254-1215.

The investment consultants directory will be published Nov. 16.

Chicago Board of Trade

Treasury Note and Bond Futures and Options. Interest rate risk management for people who don't have money to burn.

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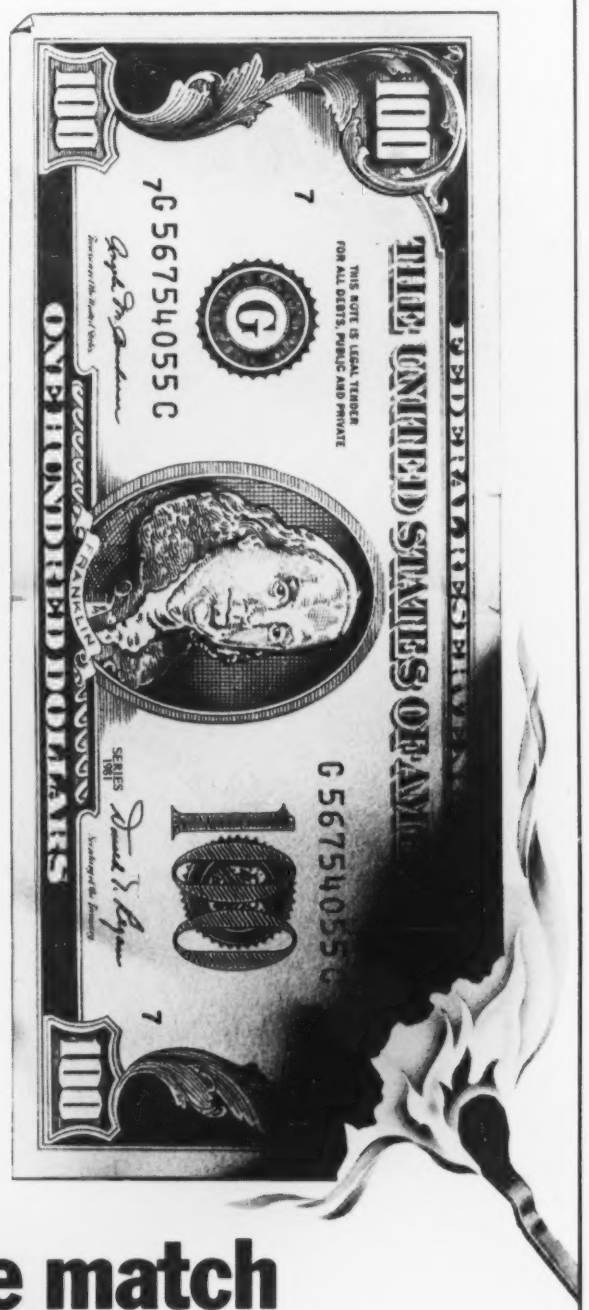

A custom interest rate match strikes where it hurts.

Corporate Finance

Foreign currency warrants blast off

By Brad Rudin

NEW YORK — A flurry of deals inspired by Bear, Stearns & Co. Inc.'s currency exchange warrants hit the market last month as issuers seized the opportunity to achieve all-in-cost savings that exceeded 20 basis points.

Among the issuers were General Electric Credit Corp., Stamford, Conn.; Ford Motor Credit Co., Dearborn, Mich.; Emerson Electric Co., St. Louis; Citicorp, New York; and the Student Loan Marketing Association, Washington. More deals — by General Mills Inc., Minneapolis, and Xerox Credit Corp., Stamford, Conn. — are in the works.

"They appear to be the hottest thing on the block," said Lisa K. Polsky, a Citicorp Investment Bank vice president who heads the options and new products department.

Citicorp arranged the currency hedge in several of last month's foreign currency warrant deals.

In these deals, issuers sell warrants that will be valueless unless the dollar appreciates against the yen or the deutsche mark during the five-year life of the warrant. A hedged position protects the issuer from currency risk.

Issuers offer notes and warrants simultaneously, but not as a unit.

The warrants, which are being traded on the American Stock Exchange, are regulated by the Securities and Exchange Commission.

Combining the net proceeds of the warrants and the notes produces a lower all-in-cost of borrowing, said a Bear, Stearns official who asked to remain unidentified.

Yet the cost of hedging against currency risk combined with the legal and investment banking fees for this new product results in "significant costs all the way around — this is not found money," the Bear, Stearns official said.

"There's obviously a little bit of learning that has to take place when somebody does the first one," said Robert G. Scott, a managing director at Morgan Stanley & Co. Inc. "But once they're over that hump, the costs will decrease a little bit."

Artur Walther, partner in charge of capital markets at Goldman, Sachs & Co., predicted the product would survive its infancy.

"It probably will slow down a little because there have been quite a number of issues, but I think we'll continuously see transactions in the future," he said.

Bear, Stearns started the ball rolling June 10 with a notes and yen-linked warrants issue for General Electric Credit. According to a Bear, Stearns statement, it was the first time this type of foreign currency warrant was sold in the United States.

The firm followed through June 18 with an offering of yen-linked currency exchange warrants for Ford Motor Credit and June 24 with a deutsche mark-linked warrants issue for General Electric Credit that was co-managed by Kidder, Peabody & Co. The next day Emerson Electric made its offering of notes and deutsche mark-linked warrants in a deal managed by Bear, Stearns and co-managed by Prudential-Bache Capital Funding.

By the end of June, Morgan Stanley, Goldman and Salomon Brothers Inc. had completed or planned similar deals for Citicorp, Sallie Mae, Xerox Credit and General Mills.

Issuers hedge their positions by buying over-the-counter options from a money center bank. The option gives the holder the right to buy or sell a stated amount of foreign currency for a previously established price until the option expires. The issuer sells the warrants at a spread over the purchase price of the option.

By purchasing the option, the issuer acquires the right to sell foreign currency in exchange for dollars — a move that covers the issuer's obligation to pay the warrant holders.

In the June 10 General Electric Credit deal, the warrant holders get paid only if the dollar reaches a value of more than 149.70 yen before June 15, 1992. As the dollar appreciates, the cash settlement value of the warrants increases. The dollar has been trading re-

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Underwriting volume up 7%

By Mercl Baker

NEW YORK — First-half domestic underwriting volume climbed 7% from that generated during the first half of 1986, with Salomon Brothers Inc. continuing to lead underwriters with 15.4% of the total raised by issuers.

The six-month numbers were dampened by a dropoff in domestic underwriting activity in the second quarter when an increase in interest rates and jittery bond prices sidelined issuers of new securities.

Corporations raised $153.9 billion during the first six months of the year, compared with $143.8 billion in the comparable period last year, according to IDD Information Services, New York.

Most came in the first quarter when $87.7 billion in new securities offerings came to market. Second-quarter volume fell almost a third to $66.2 billion.

Despite the shaky interest rate environment, U.S. issuers, more than ever, preferred to raise funds at home. These issuers raised $183.3 billion worldwide during the first half, down slightly from the $185.8 billion raised worldwide in the same period last year, IDD reported. But only $12.5 billion constituted offerings issued overseas — a 43.4% drop from the $22.1 billion raised overseas by U.S. issuers in the first half of 1986.

Domestically, Salomon Brothers garnered the greatest market share for overall underwriting volume, although other firms continue to chip at its lead.

Salomon acted as lead manager on $23.7 billion of total domestic underwritings, for a 15.4% market share. First Boston Corp., the closest competitor managed $20.3 billion for a 13.2% share. For the same period last year, Salomon was credited with 20% of domestic underwriting volume and First Boston, 14%.

Merrill Lynch Capital Markets Inc. moved to third from sixth place for the first-half rankings. It held the lead manager role on $13.8 billion of total volume, for a 12.2% market share. Goldman, Sachs & Co. followed with $17 billion or 11.1% according to IDD. Morgan Stanley & Co. Inc. was fifth, managing $10.1 billion or 10.5%.

Drexel Burnham Lambert Inc., which is battling stiffer competition in junk bond and merger financings amid investigations into its business operations, slipped to sixth for the first half from third for the 1986 period. The firm managed $11.3 billion to garner a 7.3% market share. For the 1986 period it managed $18 billion for a 12.3% market share.

Breakdowns of domestic underwriting numbers reveal only modest increases in tech-

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New issues of corporate securities

Issue date	Company	Amount ($ mil.)	Type of security	Offering price Debt (%) Share ($)	Gross spread as % offer price	Where traded (to list)	Managers
6/4	Marine Midland 1987-1 CARS Trust	600.08	Cert. Rec.	99.93%	.400	OTC	Salomon/Marine Midland Securities
6/11	CFC-1 Grantor Trust	515.91	Cert. Rec.	99.60%	.402	OTC	First Boston/Salomon
6/12	General Motors Acceptance Corp.	300.00	Notes	99.70%	.451	OTC	Salomon/First Boston/Merrill Lynch/Morgan Stanley
6/9	Coll. Mtg. Obligation Trust 32	275.10	GNMA CMO	99.22%	.504	OTC	Salomon Brothers
6/10	The Chase Manhattan Corp.	275.00	Sub. Notes	99.75%	.677	OTC	Salomon Brothers
6/12	Hoechst Celanese Corp.	250.00	Notes	100.00%	.675	OTC	First Boston/Dllon, Read/Goldman, Sachs/Lazard Freres
6/11	Marriott Corp.	250.00	Deb.	99.83%	.626	OTC	Merrill Lynch
6/3	BP North America Inc.	250.00	GTD Notes	99.20%	.655	OTC	Salomon/Goldman, Sachs
6/2	Georgia Power Co.	250.00	First Mtg.	99.50%	.781	NY	PBS/FBC/DAIWA/KP/SAL/SLB/ALEX-BROWN*
6/1	General Motors Acceptance Corp.	250.00	Notes	99.73%	.351	OTC	Morgan Stanley/First Boston/Merrill Lynch/Salomon
6/11	Compania Telefonica Nacional/Espana	334.00		$20.88	4.98	MAD (NY)	Goldman, Sachs/Merrill Lynch/Salomon
6/12	Armco Inc.	153.60		$10.00	4.30	NY	First Boston/Salomon
6/3	Wellman Inc.	80.00		$20.50	6.34	IPO	Shearson Lehman/Bear, Stearns
6/2	Calson Carbon Corp.	77.00		$22.00	6.23	IPO	Shearson Lehman/First Boston
6/2	Autodesk Inc.	63.40		$24.00	4.00	OTC	L.F. Rothschild, Unterberg, Towbin
6/12	Novell Inc.	63.00		$21.00	4.52	OTC	Alex. Brown/Morgan Stanley
6/2	American Barrick Resources Corp.	55.50		$37.00	4.00	NY/TOR	Merrill Lynch/Goldman, Sachs
6/3	Vista Chemical Co.	54.80		$27.38	3.98	NY	E.F. Hutton/Prudential-Bache
6/12	Forest Laboratories Inc.	50.00		$27.75	3.75	AM	Shearson Lehman/Donaldson, Lufkin/E.F.Hutton/Dean Witter
6/4	C.H. Beazer (Holdings) PLC	46.10		$15.38	5.98	LON (OTC)	Shearson Lehman/ Robinson-Humphrey

Source: Securities Data Co., New York

Coll. Rec.: Collateral of receivables
GNMA CMO: GNMA-issued collateralized mortgage obligations
GTD Notes: Guaranteed notes
First Mtg.: First mortgage bonds
*Prudential-Bache/First Boston/Dillon/Kidder, Peabody/Salomon Brothers/Allen

NY: New York Stock Exchange
OTC: Over the Counter
IPO: Initial Public Offering
AM: American Stock Exchange
LON: London Stock Exchange
TOR: Toronto Stock Exchange
MAD: Madrid Stock Exchange

Volume up . . .

Continued from page 17

vidual market volumes almost across the board. One exception was in the mortgage-backed securities arena, where six-month volume shot up 130% from the 1986 period.

Mortgage-related offerings totaled $48.5 billion for the first half, compared with $21.1 billion for the 1986 period.

Much of that activity came in the first quarter, when volume reached $31.1 billion. The interest rate surge of the second quarter slowed issuing activity and volume shrank to $17.4 billion.

Salomon and First Boston, garnering 21.2% and 16.8% of first-half mortgage-related volume, continued to dominate that area, but by a much smaller margin. Salomon and First Boston were lead managers for 32.9% and 28.9%, respectively, of the total for the 1986 period.

Merrill Lynch placed third in the mortgage-related arena, garnering 14%. Its standing represented a five-percentage-point increase from the 1986 period. But it came at a high price — the firm reported a $250 million trading loss in mortgage securities in the second quarter.

Also increasing market share were Goldman and Kidder, Peabody & Co. Inc., which placed fourth and fifth for the first half. IDD credited 8.3% of total volume to Goldman, up from 2.3% for the same period in 1986. Kidder's market share climbed to 7.2% from 4.7%.

While the mortgage area witnessed a tumultuous first half, straight and convertible debt were more stable. Straight-debt volume climbed to $113 billion, up 6% from $106.8 billion raised domestically in the first half of 1986. Convertible debt issuance was up 12.7%, with issuers raising $8 billion vs. $7.1 billion.

Salomon and First Boston held their respective first- and second-place standings in straight-debt underwriting. Salomon captured 19.4% of the market, and First Boston, 15.5%. Following the two firms were Merrill Lynch, with a 12.9% market share; Morgan Stanley, with 11.3%; and Goldman, Sachs, with 10.6%.

An aggressive first half in convertible-debt underwritings won Smith Barney, Harris Upham & Co. Inc. the No. 1 spot in that market segment. The firm, which ranked 10th for the 1986 period, managed nine deals totaling $1.2 billion for a 15.1% market share. Goldman followed with 12.4% of the total, while Morgan Stanley placed third with 12%.

Drexel, which held the top spot for the comparable period last year, fell to fourth with a 9.8% market share. First Boston was fifth with 6.7% of the total.

Common stock volume, like that of the domestic debt markets, remained relatively stable in the first half. Volume totaled $25 billion, up only 7.3% from the $23.3 billion issued domestically in the first six months of 1986.

Goldman led underwriters in the common stock rankings, managing 13.1% of the total. Merrill and Shearson Lehman Brothers Inc. followed, with 11.7% and 9.3% respectively.

However, two regional firms — Alex. Brown & Sons Inc., Baltimore, and Wheat, First Securities Inc., Richmond, Va. — rose dramatically to take fourth and fifth place in the common stock rankings.

Alex. Brown, which ranked 12th in the first half of 1986, placed 24 stock offerings, including 14 initial public offerings, totaling $2.2 billion or 8.6% of total common equity volume.

Wheat, First Securities, which ranked 30th last year, achieved its 7.8% market share with two IPOs totaling just less than $2 billion. It was lead manager for the $850 million share offering for MFS Government Markets Income Trust and the $1.1 billion offering for MFS Multimarket Income Trust.

Among other first-half underwriting highlights:

- Salomon Brothers led in worldwide underwritings by U.S. issuers only, with 15.1% of the $163 billion raised. First Boston was second with 13%, followed by Merrill Lynch, 10.9%; Morgan Stanley, 10.3%; and Goldman, Sachs, 10.1%.
- Worldwide underwriting volume (excluding international equity offerings) by both U.S. and foreign issuers reached $258.3 billion for the six months, only slightly more than the $253.4 billion raised by all issuers during the period last year. Salomon and First Boston retained first and second, with respective market shares of 10.4% and 9.7%. Merrill Lynch moved into third place with 7.6%, and Morgan Stanley was fourth with 7.4%.
- Volume for IPOs increased 68.2% to $14.8 billion in the first half. IPO volume total $8.8 billion during the same period last year. Goldman, Sachs, with 14.5% of the IPO total, jumped to first place from 14th last year. The firm was lead manager in the $1.5 billion Consolidated Rail Corp. stock offering, launched at the end of March.

Ranking second was Merrill Lynch, with a 13.5% market share. Wheat, First and Alex. Brown climbed to third and fourth place, respectively, with 13.2% and 12.4%.

- Junk-bond volume declined 16% during the first half to $13.1 billion from the $15.6 billion raised during the same period last year. Drexel managed 41.6% of total volume, down from the 60.2% share it held for the 1986 period.
- Issuers raised almost $7.8 billion of preferred stock, up 17% from the $6.6 billion raised during the first half of 1986. Of the total, $4.6 billion represented straight preferred offerings and $3.1 billion, convertible preferred offerings.

Morgan Stanley led in the overall preferred category, with 16.1%. Merrill Lynch ranked second with 14.4% and Shearson Lehman, third with 11.5%.

- A breakdown by issuer type showed only financial companies increasing funds raised during the six months. These companies issued $88.5 billion of securities, up 41% from the $62.8 billion raised during the first half of last year. Financing volume from utilities tumbled the most, 44.4%, to $10.3 billion.

Volume among industrial and agency issuers declined 11.7% and 11.5%, respectively. Industrial financing ended the first half at $52.7 billion, compared with $59.7 billion in the 1986, and agencies raised $2.3 billion vs. $2.6 billion. ■

All Issues

U.S. market

	Firm	$ mils.	Issues
1.	Salomon Brothers	23,737	151
2.	First Boston	20,281.4	117
3.	Merrill Lynch	18,797.9	133
4.	Goldman, Sachs	17,016.1	121
5.	Morgan Stanley	16,085.8	112
6.	Drexel Burnham	11,246.1	100
7.	Shearson Lehman	10,468.9	96
8.	Kidder, Peabody	7,031.4	56
9.	Bear, Stearns	3,482	35
10.	Smith Barney	2,772.6	32
11.	Prudential-Bache	2,714.5	29
12.	Alex. Brown	2,616.9	30
13.	Dillon, Read	2,536.3	22
14.	Wheat, First	2,014.3	5
15.	Dean Witter	1,898.2	21

U.S. Issuers (worldwide)*

	Firm	$ mils.	Issues
1.	Salomon Brothers	24,600.2	155
2.	First Boston	21,244.5	124
3.	Merrill Lynch	17,838	122
4.	Morgan Stanley	16,863	114
5.	Goldman, Sachs	16,524.4	120
6.	Drexel Burnham	11,299.6	99
7.	Shearson Lehman	11,052.6	101
8.	Kidder, Peabody	6,957.5	57
9.	Bear, Stearns	3,468.3	34
10.	Prudential-Bache	2,841.4	30
11.	Smith Barney	2,772.6	32
12.	Alex. Brown	2,616.9	30
13.	Dillon, Read	2,536.3	22
14.	Wheat, First	2,014.3	5
15.	Dean Witter	1,898.2	21

Worldwide**

	Firm	$ mils.	Issues
1.	Salomon Brothers	26,947.2	177
2.	First Boston	24,952.4	161
3.	Merrill Lynch	19,689.7	143
4.	Morgan Stanley	18,991	137
5.	Goldman, Sachs	18,211.1	133
6.	Nomura	12,598.5	85
7.	Shearson Lehman	11,755.1	110
8.	Drexel Burnham	11,473.7	102
9.	Kidder, Peabody	7,181.4	59
10.	Daiwa Securities	6,653.7	53
11.	Yamaichi	5,302.2	51
12.	Union Bank/Switz.	5,113.1	57
13.	Deutsche Bank	4,835.3	45
14.	Nikko Securities	4,375.5	36
15.	Swiss Bank	4,082.9	50

Bond Issues

Straight debt

	Firm	$ mils.	Issues
1.	Salomon Brothers	21,914.2	125
2.	First Boston	17,585.6	90
3.	Merrill Lynch	14,541.7	77
4.	Morgan Stanley	12,784.1	77
5.	Goldman, Sachs	11,965	74
6.	Drexel Burnham	8,175.8	52
7.	Shearson Lehman	6,829.1	51
8.	Kidder, Peabody	4,943.7	28
9.	Bear, Stearns	2,694.4	21
10.	Prudential-Bache	2,333.7	18
11.	Dillon, Read	2,194.5	15
12.	Dean Witter	1,131.8	6
13.	Smith Barney	1,092.2	11
14.	L.F. Rothschild	854.9	8
15.	E.F. Hutton	762.6	8

Convertible debt

	Firm	$ mils.	Issues
1.	Smith Barney	1,200	9
2.	Goldman, Sachs	985	11
3.	Morgan Stanley	960	11
4.	Drexel Burnham	780	16
5.	First Boston	535	3
6.	Lazard Freres	465	6
7.	Alex. Brown	465	6
8.	Salomon Brothers	435	3
9.	Shearson Lehman	430	6
10.	Kidder, Peabody	417	6
11.	Bear, Stearns	225	5
12.	Merrill Lynch	210	3
13.	Dean Witter	115	3
14.	Dillon, Read	100	1
15.	PaineWebber	75	1

Junk bonds

	Firm	$ mils.	Issues
1.	Drexel Burnham	5,430.9	41
2.	Morgan Stanley	1,873.3	9
3.	First Boston	1,806.2	8
4.	Merrill Lynch	1,215.7	10
5.	Salomon Brothers	703.1	8
6.	Donaldson, Lufkin	492.7	3
7.	Dean Witter	321.5	2
8.	Goldman, Sachs	300	1
9.	Kidder, Peabody	253.9	3
10.	Smith Barney	248.7	1
11.	Bear, Stearns	104.9	2
12.	PaineWebber	100	1
13.	L.F. Rothschild	85	1
14.	Shearson Lehman	50	1
15.	E.F. Hutton	32.2	1

Stock Issues

Common stock

	Firm	$ mils.	Issues
1.	Goldman, Sachs	3,281.1	23
2.	Merrill Lynch	2,927	36
3.	Shearson Lehman	2,321.8	29
4.	Alex. Brown	2,151.9	24
5.	Wheat, First	1,950	2
6.	Drexel Burnham	1,712.4	22
7.	First Boston	1,355.6	15
8.	Morgan Stanley	1,097	14
9.	Kidder, Peabody	1,088.2	17
10.	Salomon Brothers	912.8	15
11.	Wertheim Schroder	554.8	4
12.	Smith Barney	480.3	12
13.	Dean Witter	462.4	10
14.	E.F. Hutton	429.6	9
15.	Lazard Freres	362.9	5

Straight preferred

	Firm	$ mils.	Issues
1.	Merrill Lynch	853	14
2.	Goldman, Sachs	650	11
3.	First Boston	551.5	6
4.	Morgan Stanley	519.7	6
5.	Salomon Brothers	475	8
6.	Shearson Lehman	431.1	5
7.	Drexel Burnham	375	6
8.	Bear, Stearns	280	4
9.	Oppenheimer	270	2
10.	Kidder, Peabody	115	2
11.	PaineWebber	61.4	2
12.	E.F. Hutton	50	1
13.	Interstate Securities	10	1
14.	B.C. Christopher	3.1	1

Convertible preferred

	Firm	$ mils.	Issues
1.	Morgan Stanley	725	4
2.	Kidder, Peabody	467.5	3
3.	Shearson Lehman	456.8	5
4.	Merrill Lynch	266.2	3
5.	First Boston	253.7	3
6.	Drexel Burnham	203	4
7.	Dean Witter	189	2
8.	Donaldson, Lufkin	150	1
9.	Goldman, Sachs	135	2
10.	PaineWebber	125	2
11.	Eastlake Securities	60	1
12.	Bear, Stearns	57.5	2
13.	Butcher & Singer	12	1
14.	L.C. Wegard	6	1

*Excludes international equities
**All issuers, excludes international equities

Source: IDD Information Services, New York

Indexed . . .

Continued from page 3

of the stock index assets, tracked the Wilshire 5000, compared with $3.5 billion six months ago.

The remainder of the domestic stock side was made up of various enhanced and customized indexes, including the Russell 1000, the Russell 2000 and a South Africa-free index that attracted about $150 million is assets.

The Financial Accounting Standards Board Statement 87, which requires companies to report pension liabilities on the balance sheet, has enhanced the attractiveness of index funds, according to several money managers.

"FASB rules are going to offer passive money managers big opportunities to insure the surplus," said Luke Mazur, vice president in trust department of strategic investment services at The Northern Trust Co., Chicago.

"With FASB 87 there's a greater move to offset the (accumulated benefit obligation) and (projected benefit obligation) areas of their liabilities," said Brian Hersey, product manager at Aetna Life Insurance Co., Hartford, Conn.

Aetna Life reported $450 million in total indexed assets as of May 31.

Many money managers say FASB changes and minimal transaction fees particularly have boosted the popularity of fixed-income index funds.

Despite a 1% decline in the widely tracked Shearson Lehman Government/Corporate bond index for the six months ended May 31, assets in fixed-income index funds increased 48.5% to $43.73 billion from $29.45 billion during the period.

"Bond indexing is very attractive now, especially for public funds which are tired of paying higher fees for less-than-market performance," said Erich Weissenberger Jr., marketing director of Favia Hill & Associates, New York.

"We haven't had a real bear market in bonds in a long time," Mr. Weissenberger said. "The jury's still out as to whether managers will move more money into bond indexes when the bear market comes."

Favia Hill had $101 million in indexed assets May 31, all in fixed-income index funds.

The Shearson Lehman index remained bond index managers' most widely used benchmark, attracting more than $30 billion, up from $17.8 billion Nov. 30.

Approximately $9.3 billion in assets tracked the Salomon Brothers Broad Investment Grade bond index, up from $1.3 billion at the beginning of the period. The remaining fixed-income dollars were indexed to customized indexes.

Many money managers told *P&I Age* in late 1986 that international indexing would be an area of tremendous growth, especially since international managers have had trouble beating the Morgan Stanley Capital International Europe Australia Far East index. They've been on the right track.

Tax-exempt U.S. assets deposited in international index funds grew to $6.53 billion from $3.51 billion for the six-month period, a net gain of 42.3% after accounting for EAFE's 43.7% appreciation during the period.

Nearly $5.1 billion in U.S. tax-exempt assets tracked the EAFE, up from $3.2 billion Nov. 30.

Money managers cited several reasons they expect international indexing to grow.

One is pension executives considering a passive management approach generally are just discovering the advantages of using international indexing to diversify their assets.

Six months ago, only six managers offered international index funds. Today there are at least 13.

"International funds give managers the ability to hedge against the dollar," said Ed Robie managing director of Western Asset Management Co., Los Angeles. Western Asset reported managing $300 million in indexed assets, all in fixed-income funds.

International indexing — like other forms of indexing — also offers tremendous savings over active portfolios, said Harry Sterling, vice president of the State Street Bank & Trust.

State Street, which ranked as the nation's largest manager of international and global account assets in *P&I Age*'s June 29 directory of international managers, also leads managers of international index funds, with $3.86 billion — more than half of the total.

But while State Street dominates that area, a number of new players entered the international indexing game in 1987.

Bankers Trust Co., New York, and Manufacturers National Bank-Detroit have $300 million each in international index funds, after reporting none in Nov. 30.

Other investment management firms that reported none in November, are Alliance Capital Management Corp., New York, now with $250 million; Axe Core Investors, Tarrytown, N.Y., $125 million; American National Bank & Trust Co. of Chicago, $100 million; and Travelers Investment Management Co., Hartford, Conn., $52 million. ■

$15 PBGC . . .

Continued from page 8

minimum funding standards and because of reduced transfers from the PBGC trust fund, according to a congressional staff member.

Citing these revenue figures, the subcommittee leaders requested the Joint Committee on Taxation be asked to re-examine them to ensure accuracy, and that the base premium and variable-rate component be modified if the costs are lower.

The oversight subcommittee also recommended employers sponsoring underfunded defined benefit plans be required to fund their plans more rapidly, and set forth a set of minimum funding standards along the lines of the administration's proposal.

"When terminating an underfunded pension plan, employers should be liable to their plan participants to the full extent of the plan's promised benefits, and to the PBGC for the full amount of the benefits guaranteed," according to the letter to Mr. Rostenkowski from Messrs. Pickle and Schultze.

Under the proposed minimum funding standards, there would no distress termination for companies in reorganization under Chapter 11 bankruptcy laws, and no access to reversions except after termination. The excise tax on the reversions would be doubled to 20% from 10%.

A company also would be able to recover assets from a terminated plan only if the employer's other defined benefit plans have assets of at least 125% of termination liability.

Although the reaction of PBGC Executive Director Kathleen P. Utgoff was favorable, industry representatives were less than pleased.

"The PBGC is very encouraged by the Ways and Means proposal because it is very similar to the administration's bill," Ms. Utgoff said in a statement. "Although it doesn't go as far as we had hoped, we feel these are steps in the right direction."

Mark J. Ugoretz, executive director of the ERISA Industry Committee, said if the Ways and Means proposal became law, "you'd see a wholesale retreat from defined benefit plans, because it's not that hard anymore to decide you won't pay the freight on this type of plan."

Mr. Ugoretz pointed out several important factors were left vague in the proposal, including the definition of termination liability and the interest rate assumed by the proposal.

"We are greatly distressed to see that the starting point would be $15," said Stuart J. Brahs, executive director of the Association of Private Pension and Welfare Plans. He said the APPWP's members continue to question the accuracy of the PBGC's estimate of its financial troubles and if that estimate justifies such an increase.

Also strongly opposed to the proposal are labor representatives, saying the faster funding requirements on existing liabilities are too harsh. The cost would be so high it could lead to a big loss of jobs or even put some companies under, said Alan Reuther, assistant general counsel of the United Auto Workers. ■

Plan sells . . .

Continued from page 1

at 100⅛ each on shares originally valued at $100 each — completed the transactions (*Pensions & Investment Age*, June 29).

Numerous companies, especially in the metals industry, contributed employer securities in lieu of part or all of their pension contributions in the early 1980s, when they were pressed for cash.

So far, only one pension fund has taken a major loss on such a contribution. Wheeling-Pittsburgh Steel Corp.'s 1982 contribution of 753,488 shares of preferred stock to its pension fund — originally valued at $26.3 million — was roughly valued at $1 by an official at the Pension Benefit Guaranty Corp. earlier this year (*P&I Age*, March 9).

The PBGC had assumed control of the company's underfunded plans after Wheeling-Pitt had filed for reorganization under Chapter 11 of the federal Bankruptcy Code in 1985.

The Armco stock was sold for $37 million, or 26% less than its original valuation of $50 million. But inclusion of the $4.50 annual dividend would have provided the pension fund with an additional $18 million, more than offsetting the $13 million paper loss on the securities. Thus, the total value of the investment grew by a cumulative 10% during the four-year period, before considering reinvestment of the dividends.

Nevertheless, the fund's opportunity loss was substantial. In the four-year period ended June 30, the Standard & Poor's 500 has soared a cumulative 112.5%.

Officials at Armco did not respond to requests for comment on the fund's action.

As of Jan. 1, 1986, the most recent financial statements available, Armco had $1.51 billion in pension assets and $1.67 billion in accrued liabilities for vested and non-vested benefits.

The company has been restructuring its operations in recent years in the face of sizable losses. It reported net losses of $472 million in 1986, $476.9 million in 1984, $672.5 million in 1983 and $345.1 million in 1982.

In the first quarter of 1987, however, Armco reported net income of $52.5 million; it also showed a $44.8 million profit for 1985. Long-term debt as a percentage of total capitalization increased to 51.7% March 31, 1987, from 21.4% Jan. 1, 1982.

Analysts said it was opportune for the fund to sell the shares.

"We think they (the company) have made incredible progress in strengthening their financial position," said Charles Bradford, vice president at Merrill Lynch Capital Markets, New York. He said Armco now enjoys a high cash position and has dramatically improved its balance sheet.

The company's common stock has rebounded to the $10-per-share level, after being below $5 per share last year.

Each share of the preferred stock issue is convertible into 2.22 shares of common stock at any time. Armco can redeem the shares at any time, in whole or in part, for between $50 and $52.70 per share.

Steven Brooks, a senior analyst at Moody's Investors Service, New York, said the company is enjoying improved access to the market, in light of common stock and debt issued recently. That Armco's pension fund was able to sell the stock "speaks well for the company," he said. ■

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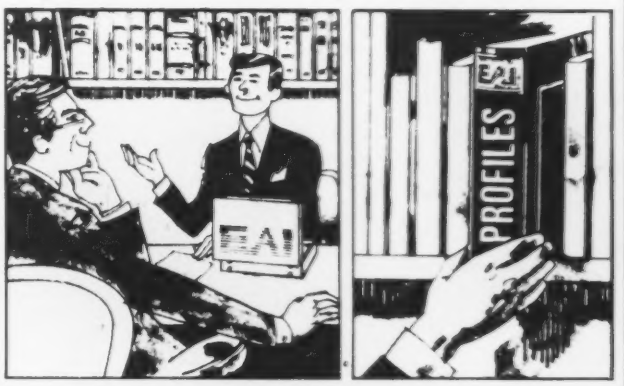

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